

Pension Funding Update

City of Torrance, CA





Pension Basics



Hurdles and Considerations



Torrance Specific Update



Strategies

DEFINITION BASED



GovInvest
The Financial Forecasting Authority



Provided through California Public Employees Retirement System (CalPERS), a multi-employer pension & health care administrator

Promised benefit is made by the contracting agency and thus the local agency's obligation not CalPERS

Once the promised benefit is made, the benefit can only be changed prospectively per the California Constitution "California Rule"

Exiting CalPERS is not a practical option, the termination liability is cost prohibitive.

Revised benefit structure for employees hired on or after January 1, 2013 due to Public Employees Pension Reform Act (PEPRA)

Torrance has 3 CalPERS plans: Miscellaneous, Safety Police, Safety Fire.



	<i>Miscellaneous Tier 1</i>	<i>Miscellaneous 2010 Tier</i>	<i>Miscellaneous Tier 3 PEPR</i>
Hire Date	Before 2010 Tier created (Aug 2010-Feb 2011)	After Aug 2010-Feb 2011; depending on MOU	On or after 1/1/13
Formula	2% @ 55	2% @ 55	2% @ 62
Final Pay Period	12 Months	12 Months	36 Months
COLA	2% per year	2% per year	2% per year
Employee Contributions	Employer Paid Member Contribution (EPMC) 7%	Employee Pays 7% of Pensionable Compensation	Employee Pays 6.75% of Pensionable Compensation

Note: On July 1, 2023 PEPR Misc employee contributions will increase to 8.0%.



	<i>Safety Police Tier 1</i>	<i>Safety Police 2010 Tier</i>	<i>Safety Police Tier 3 - PEPR</i>
Hire Date	Before 2010 Tier created (Mar 2011-Jan 2012)	After Mar 2011-Jan 2012; depending on MOU	On or after 1/1/13
Formula	3% @ 50	3% @ 50	2.7% @ 57
Final Pay Period	12 Months	12 Months	36 Months
COLA	2% per year	2% per year	2% per year
Employee Contributions	Employer Paid Member Contribution (EPMC) 9%	Employee pays 9% of Pensionable Compensation	Employee Pays 12.50% or 14.75% of Pensionable Compensation

Note: On July 1, 2023 PEPR Police Safety employee contributions will increase to 13.0% and 15.5%.



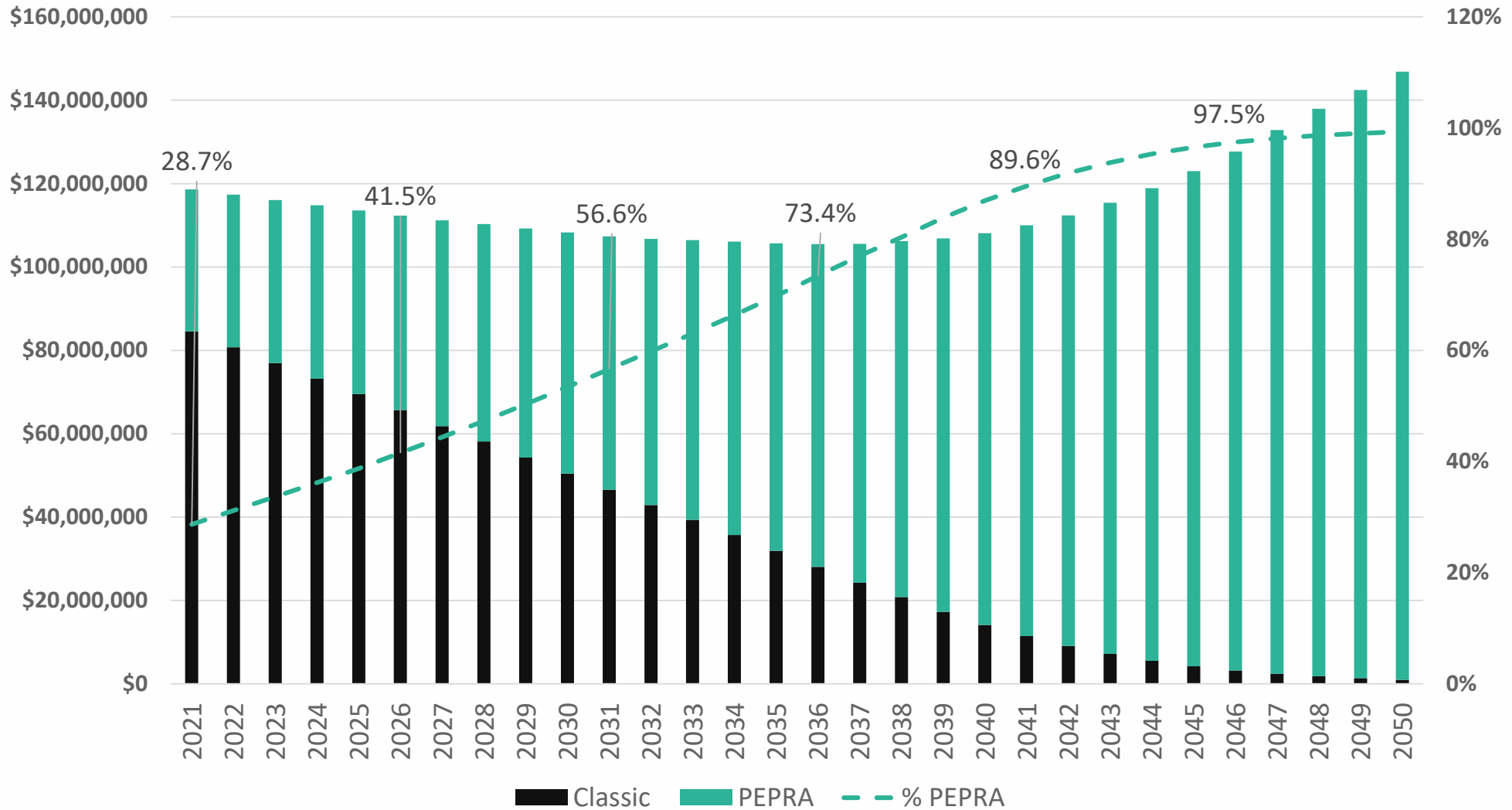
	<i>Safety Fire Tier 1</i>	<i>Safety Fire 2010 Tier</i>	<i>Safety Fire Tier 3 - PEPPRA</i>
Hire Date	Before 2010 Tier created (Mar 2011-Jan 2012)	After Mar 2011-Jan 2012; depending on MOU	On or after 1/1/13
Formula	3% @ 50	3% @ 50	2.7% @ 57
Final Pay Period	12 Months	12 Months	36 Months
COLA	2% per year	2% per year	2% per year
Employee Contributions	Employer Paid Member Contribution (EPMC) 9%	Employee Pays 9% of Pensionable Compensation	11.25% or 12% of Pensionable Compensation

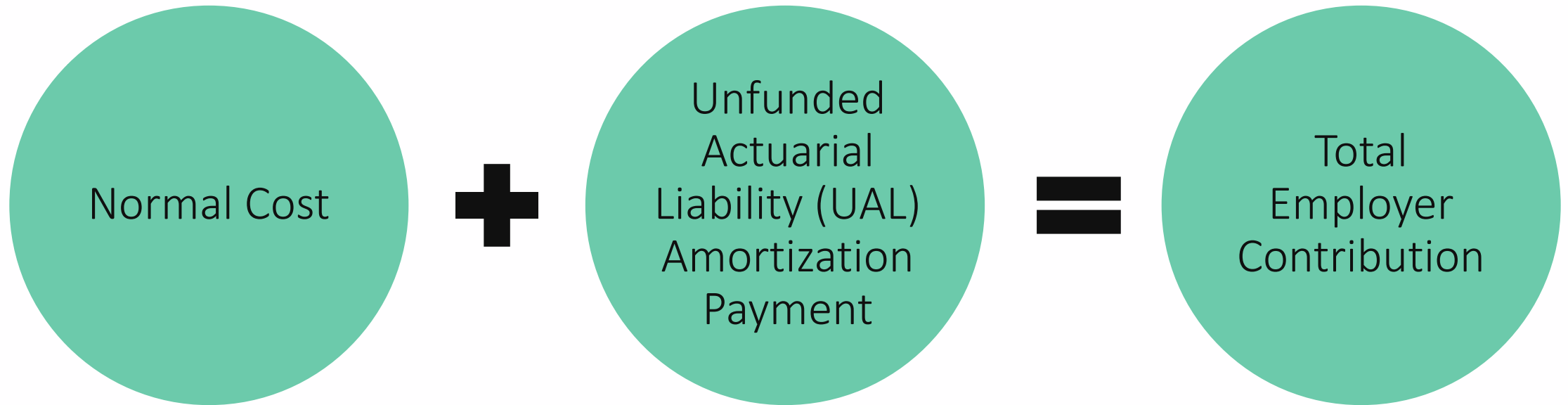
Defined Benefit – Sample

What does 2.0% @ 55 Mean?

- 2.0 is the benefit factor if employee retires at age 55.
- The benefit factor is multiplied times the years of service to derive a % of pensionable pay
- 30 Years of Service X 2.0 = 60% of Final Year
 - Final Year of \$100,000 = \$60,000 Lifetime Annual Benefit
- Employees could retire as early as 50 and receive a reduced benefit factor.
 - For example: 1.9% at age 54, 1.7% at age 53, 1.6% at age 52 and so on

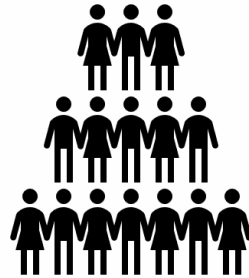
UNITED FID TRANSITION FROM CLASSIC BENEFIT TO PEPRA





Normal Cost – the cost for current service paid as a percent of payroll. Increases when payroll increases, decreases when payroll decreases

UAL Contribution – payment toward past service. Paid as a fixed dollar amount each year.



Economic

- Inflation
- Investment Return
- Salary Growth

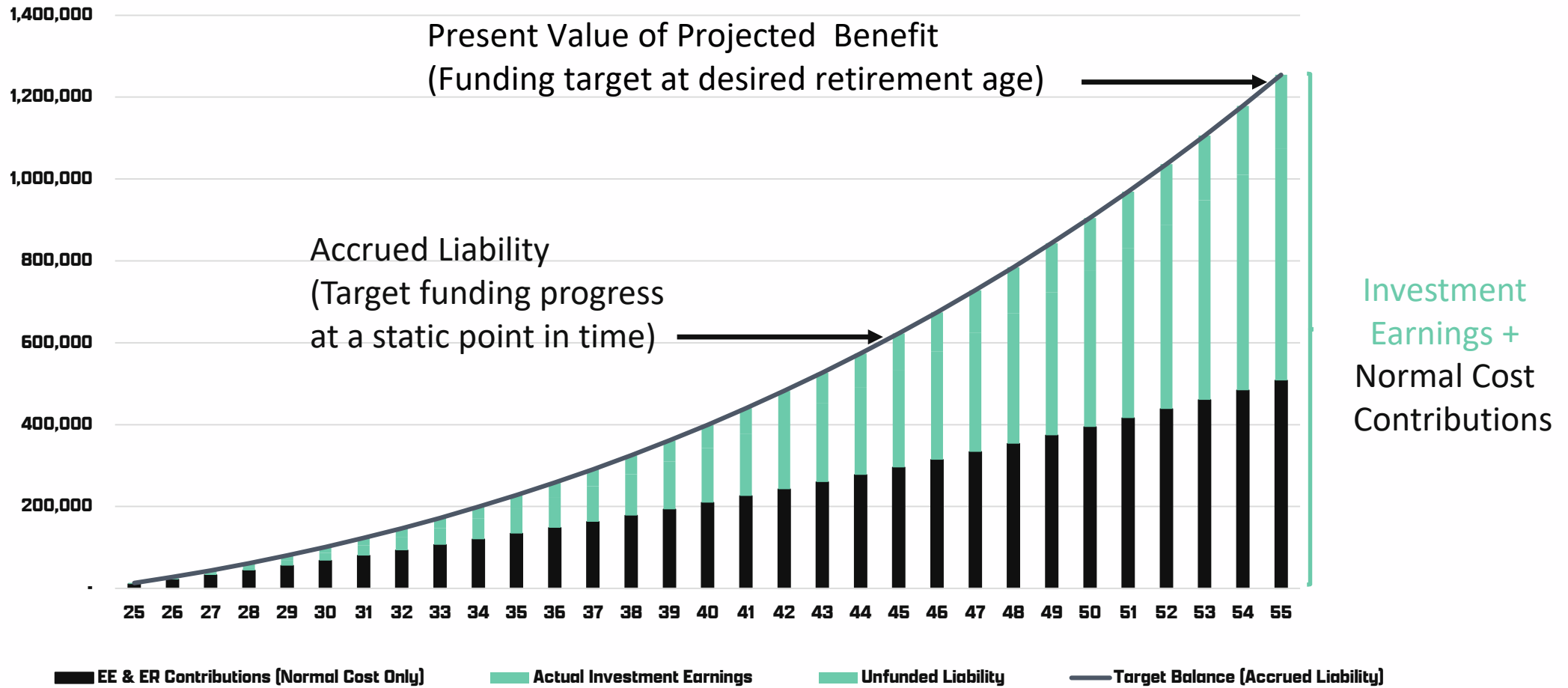
Demographic

- Retirement
- Disability
- Death
- Termination

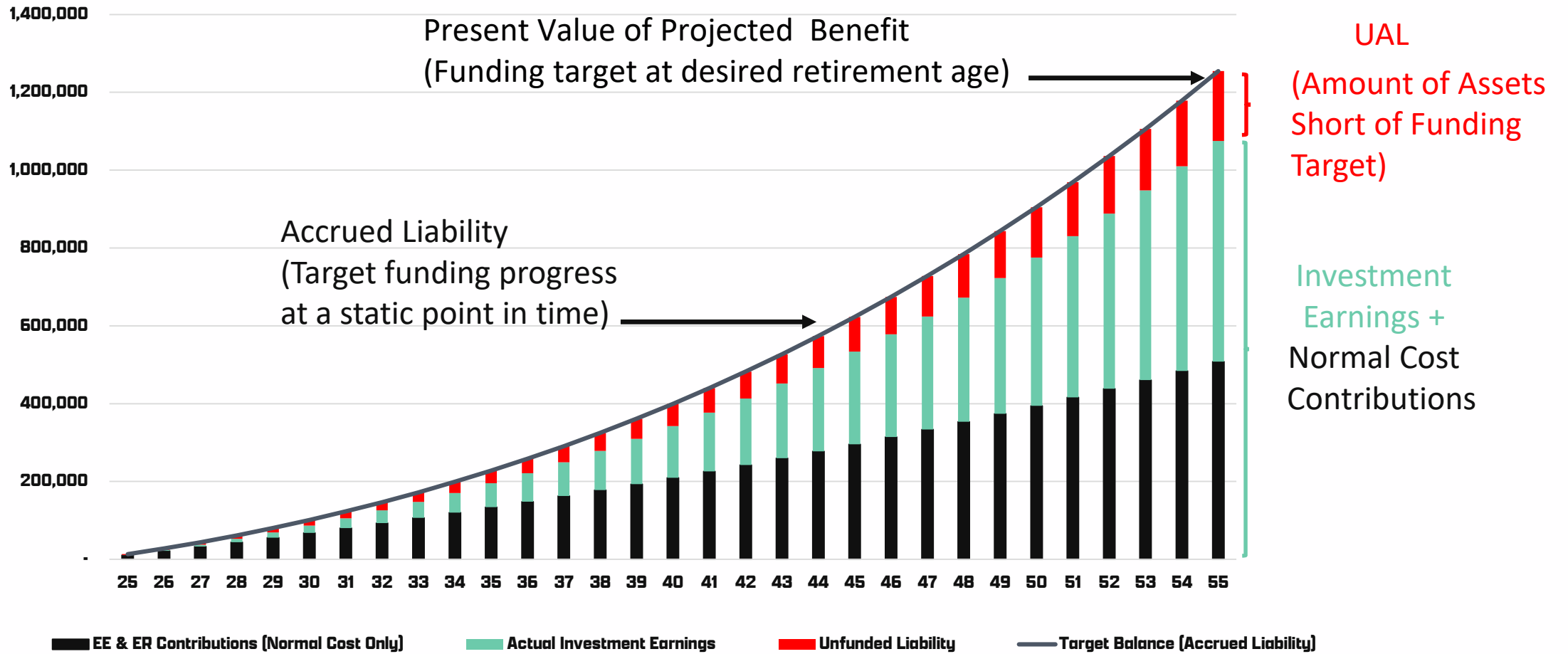
Funding a Pension Plan



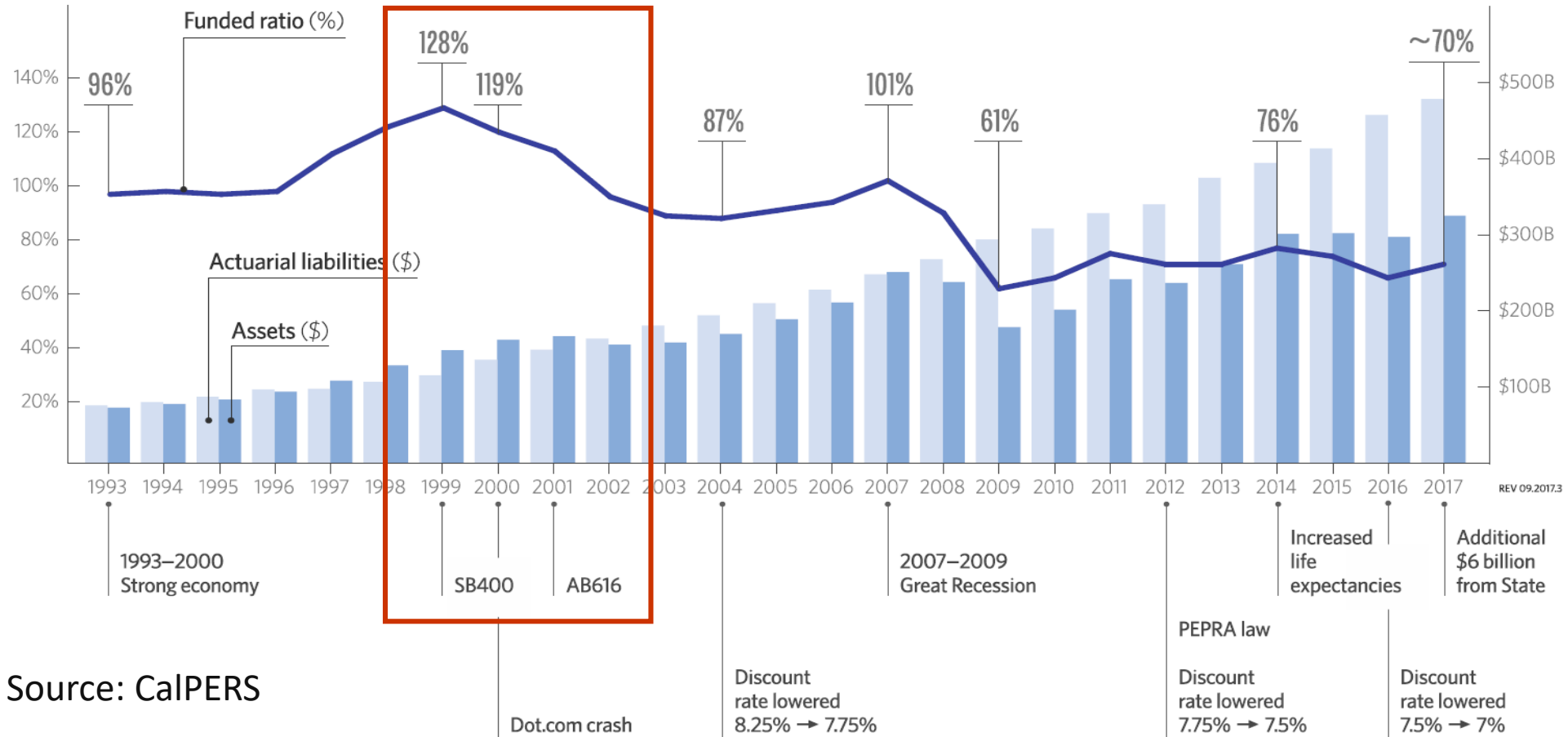
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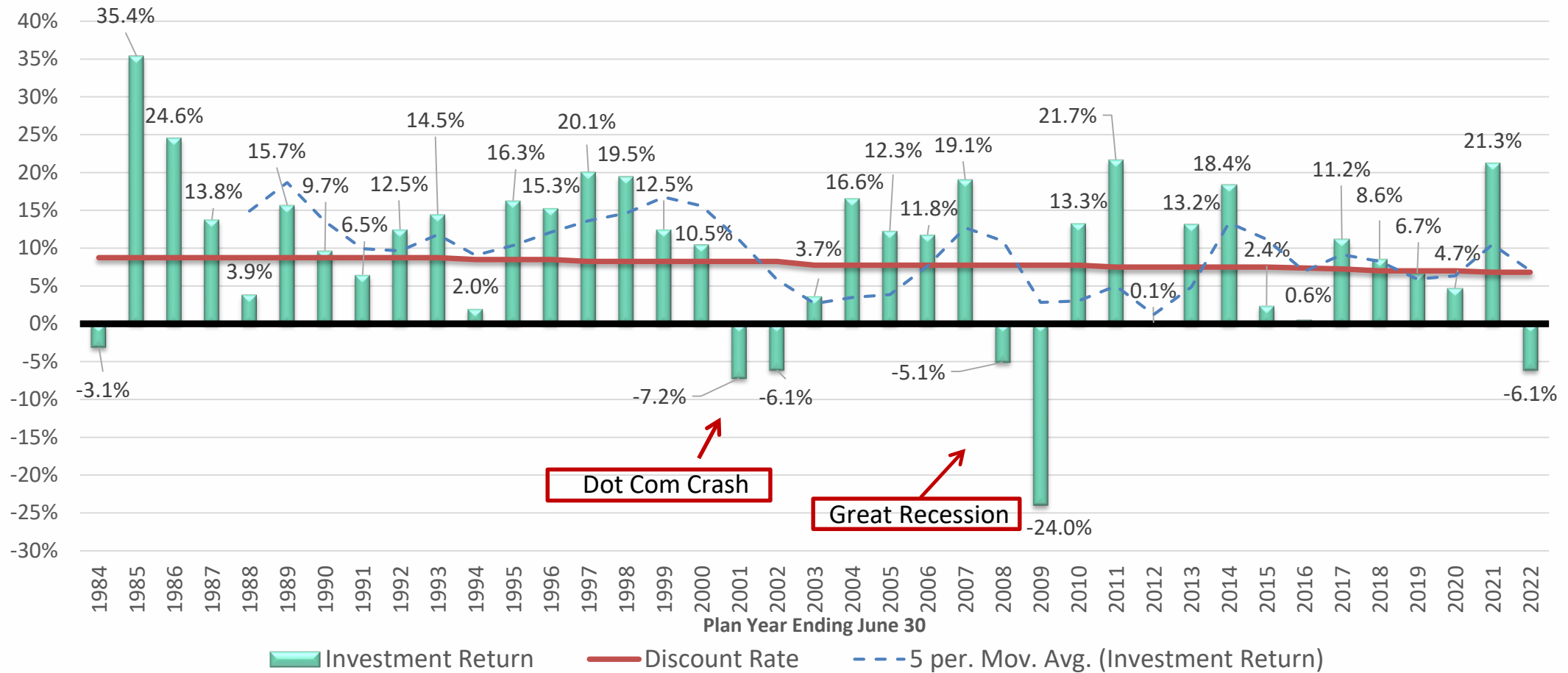


HISTORICAL FUNDING IMPACTING FINANCIAL STATUS



Source: CalPERS

ATUFE'S HISTORIC INVESTMENT DEFINITIONS



Historical Compound Annual Rate of Return					
	1 Year	5 Year	10 Year	20 Year	30 Year
Compound Annual Return	-6.1	6.7%	7.7%	6.9%	7.7%

MISSIONS & INSTITUTIONS



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ASSUMPTION CHANGES

Reduced Discount Rate Assumption from 7% to 6.8%

Reduced Inflation Rate Assumption from 2.5% to 2.3%

Increased Wage Growth Assumption from 2.75% to 2.8%

Other Demographic Assumptions Changes

ACTUAL EXPERIENCE

Investment Return: 21.3%

2021 Investment Experience



INVESTMENT DEFINITION

INVESTMENT DEFINITION

INVESTMENT DEFINITION

EXPERIENCE GAIN

INVESTMENT DEFINITION

INVESTMENT DEFINITION

<https://www.calpers.ca.gov/docs/funding-risk-mitigation-policy.pdf>



Excess Investment Return	Reduction in Discount Rate	Reduction in Expected Investment Return
<i>If the actual investment returns exceed the discount rate by:</i>	<i>Then the discount rate will be reduced by:</i>	<i>And the expected investment return will be reduced by:</i>
2.00%	0.05%	0.05%
7.00%	0.10%	0.10%
10.00%	0.15%	0.15%
13.00%	0.20%	0.20%
17.00%	0.25%	0.25%

<https://www.calpers.ca.gov/docs/funding-risk-mitigation-policy.pdf>

2022 Investment Experience



CALPERS INVESTMENT DEFINITION

LINE 30 1111

HI  INVESTMENT DEFINITION

FUNDING FITS

HI   CALPERS  HX   ASSUMPTION  

LC 

<https://www.calpers.ca.gov/docs/funding-risk-mitigation-policy.pdf>

2021 EXPERIENCE GAIN VS 2022 EXPERIENCE LOSS



	Invest	Gain/(Loss)
Invest	10,000	
2021 Experience Gain	14.3%	
6/30/2021 Balance	11,430	1,430
2022 Experience Loss	-12.9%	
6/30/2022 Balance	9,956	(1,474)
		(44)



THE FUTURE OF INVESTMENT



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FUNDING STATUS HISTORY



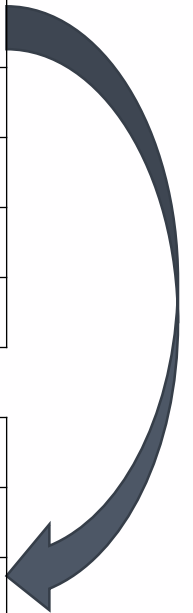
Fiscal Year End (FYE)	2019	2020	2021	Projected 2022	Change	
Accrued Liability (AL)	\$1,646,627,370	\$1,701,459,531	\$1,790,896,855	\$1,842,260,000	\$51,363,145	↑
Assets with CalPERS	\$1,151,135,907	\$1,174,371,491	\$1,804,588,855	\$1,612,830,000	-\$191,758,855	↓
Assets in S115 Trust	\$0	\$0	\$0	\$1,587,334	\$1,587,334	↓
Unfunded Accrued Liability (UAL)	\$495,491,463	\$527,088,040	-\$13,692,000	\$227,842,666	\$241,534,666	↓
Funded Status	69.91%	69.02%	100.76%	87.63%	-13.13%	↓
Assumption	7.00%	7.00%	7.00%	6.80%		
Actual Experience	6.70%	4.70%	21.30%	-6.10%		
Experience Gain/Loss	-0.30%	-2.30%	14.30%	-12.90%		



	(GAIN)/LOSS			
2021	Misc	Fire	Police	Total
Investment Experience Gain	(93,713,087)	(50,252,628)	(78,768,927)	(222,734,642)
Discount Rate Change	16,382,804	9,151,187	15,291,863	40,825,854
Other Assumption Changes	(625,205)	(1,456,750)	4,165,988	2,084,033
Other Demographic Gain	(5,198,544)	(471,048)	(1,298,597)	(6,968,189)
TOTAL	(83,154,032)	(43,029,239)	(60,609,673)	(186,792,944)

	(GAIN)/LOSS			
2022	Misc	Safety	Police	Total
Investment Experience Loss	104,260,000	57,940,000	91,650,000	253,850,000

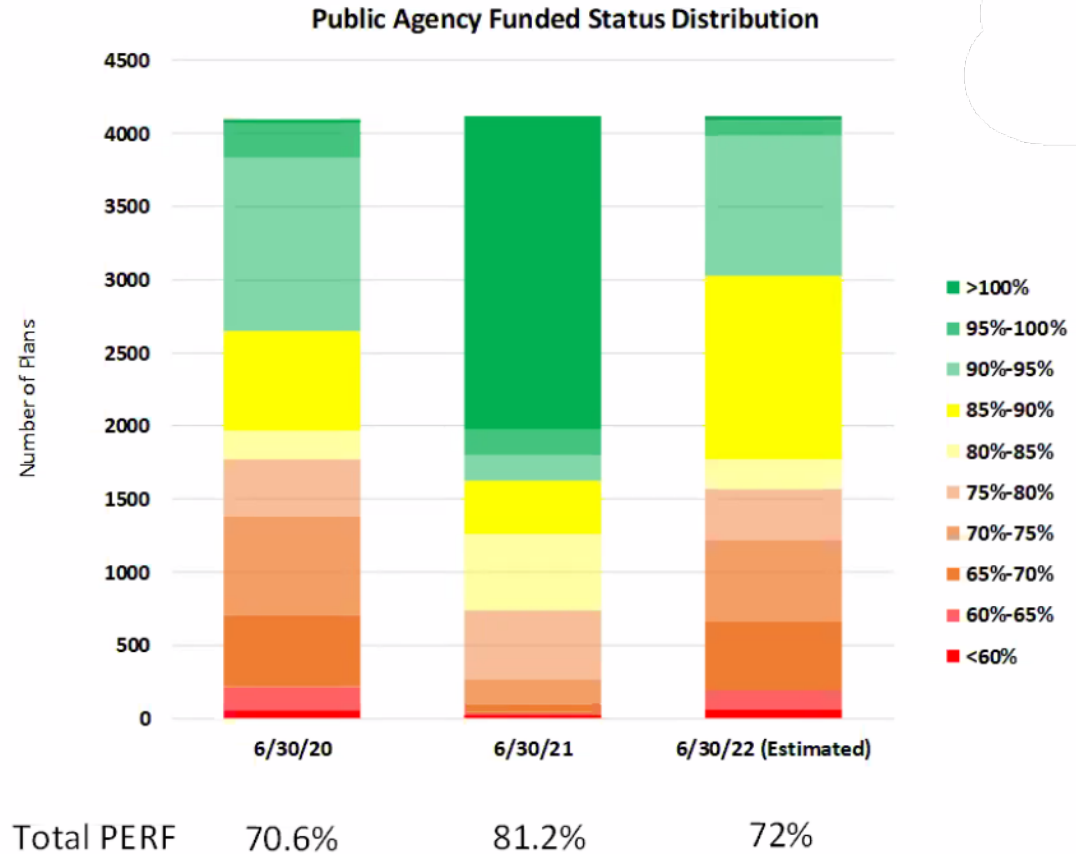
Net Funding Loss	21,105,968	14,910,761	31,040,327	67,057,056
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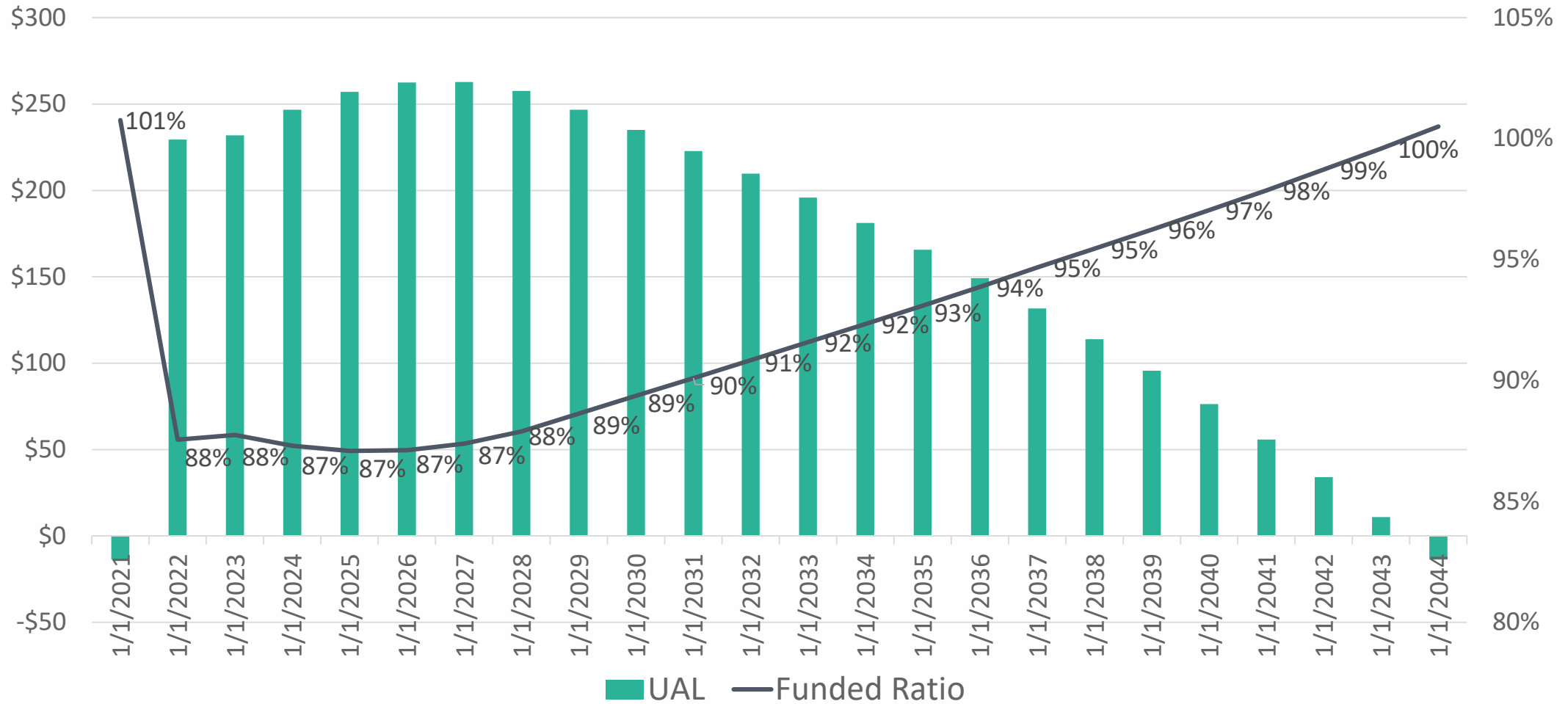
6/30/2022 Estimates — Public Agency Funded Ratios

Source:



City of Torrance **69.0%** **100.8%** **87.6%**

PERF: Public Employees' Retirement Fund



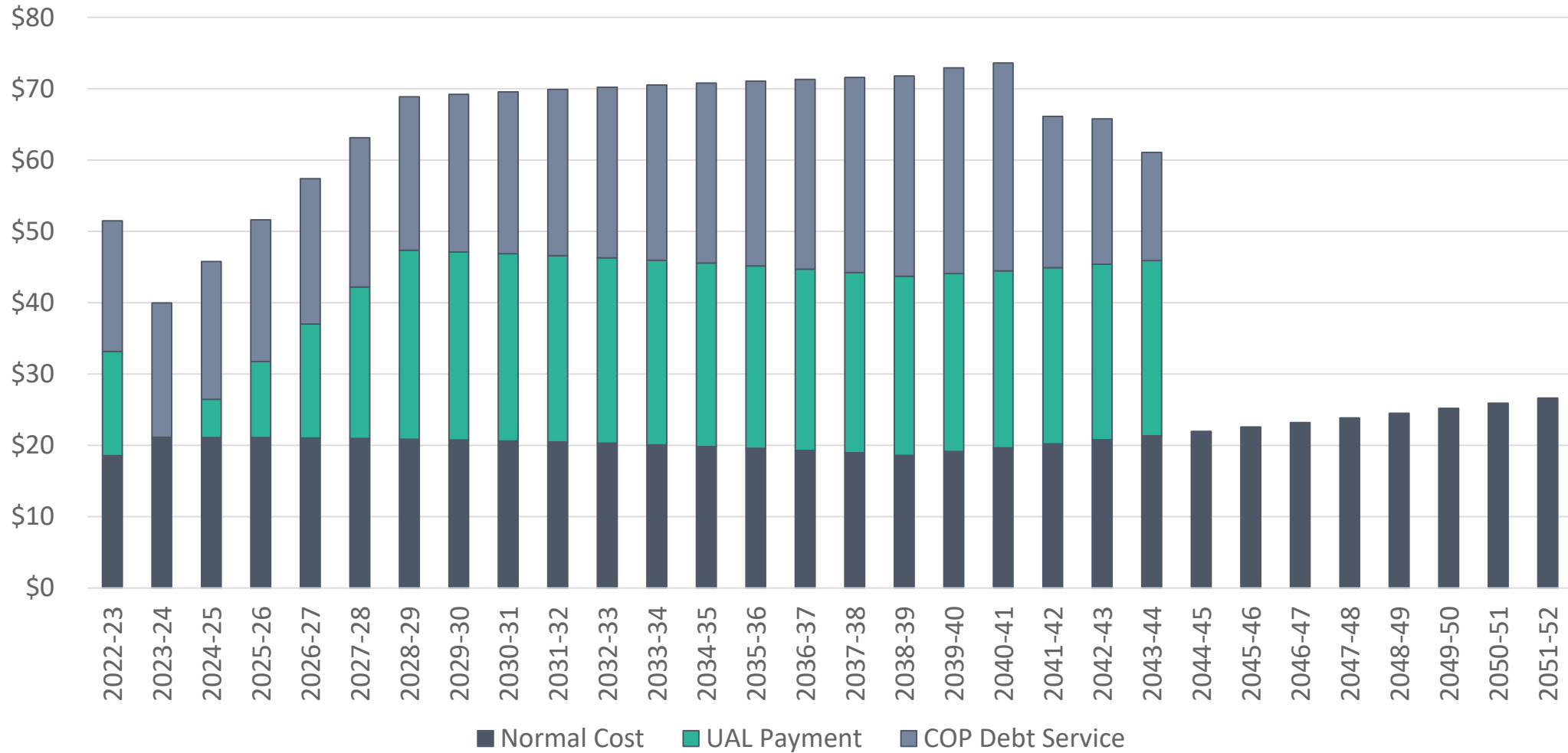
*Assumes all future actuarial assumptions are met



*Assumes all future actuarial assumptions are met



BOND SUMMARY STATISTICS		
Delivery Date	10/22/2020	
First Coupon	10/1/2021	
Final Maturity	10/1/2043	
True Interest Cost (TIC)		3.43%
Average Life (Years)		14.3
Par Amount		349,515,000
Maximum Annual Debt Service		29,144,285
Average Annual Debt Service		22,738,202



*Assumes all future actuarial assumptions are met

WHAT IF THE CITY HAD NOT ISSUED BONDS IN
LAST DEVENUE BOND ISSUES?



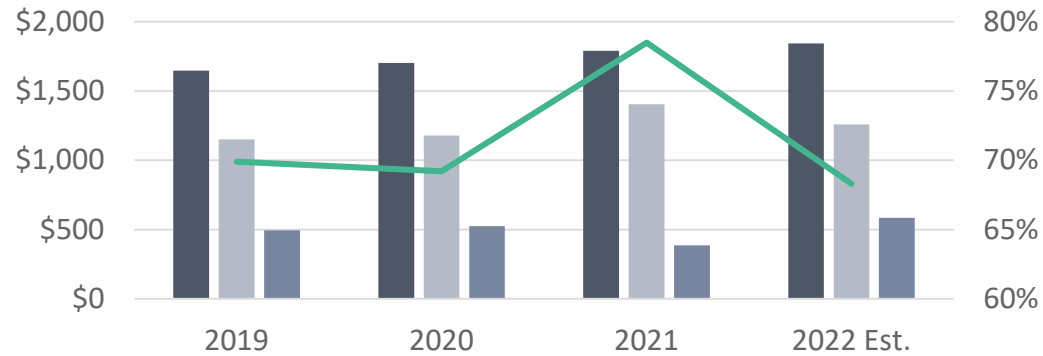
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Pre-LRB Estimate				
	Accrued Liability	Market Value of Assets	Unfunded Accrued Liability (UAL)	Funded Status
2019	\$1,647	\$1,151	\$495	69.9%
2020	\$1,701	\$1,177	\$524	69.2%
2021	\$1,791	\$1,406	\$384	78.5%
2022 Est.	\$1,842	\$1,258	\$584	68.3%

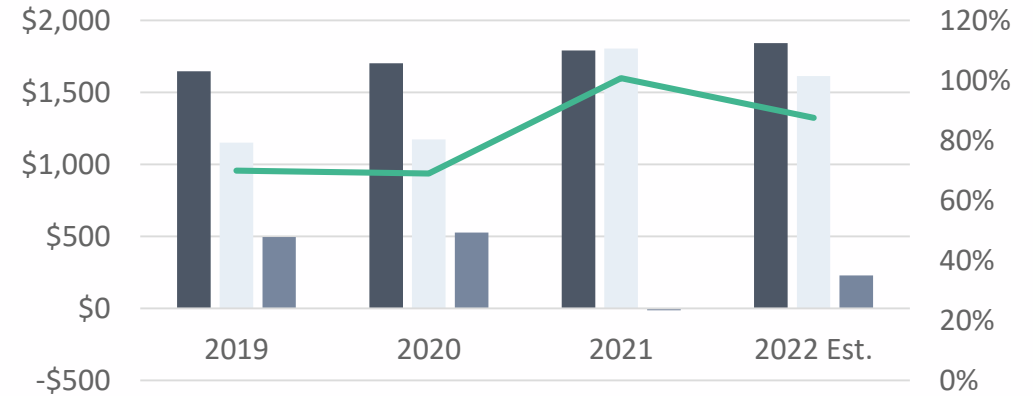
Post-LRB				
	Accrued Liability	Market Value of Assets	Unfunded Accrued Liability (UAL)	Funded Status
	\$1,647	\$1,151	\$495	69.9%
	\$1,701	\$1,174	\$527	69.0%
	\$1,791	\$1,805	(\$14)	100.8%
	\$1,842	\$1,613	\$229	87.5%

Pre-LRB Funded Status



- Accrued Liability
- Market Value of Assets
- Unfunded Accrued Liability (UAL)
- Funded Status

Post-LRB Funded Status

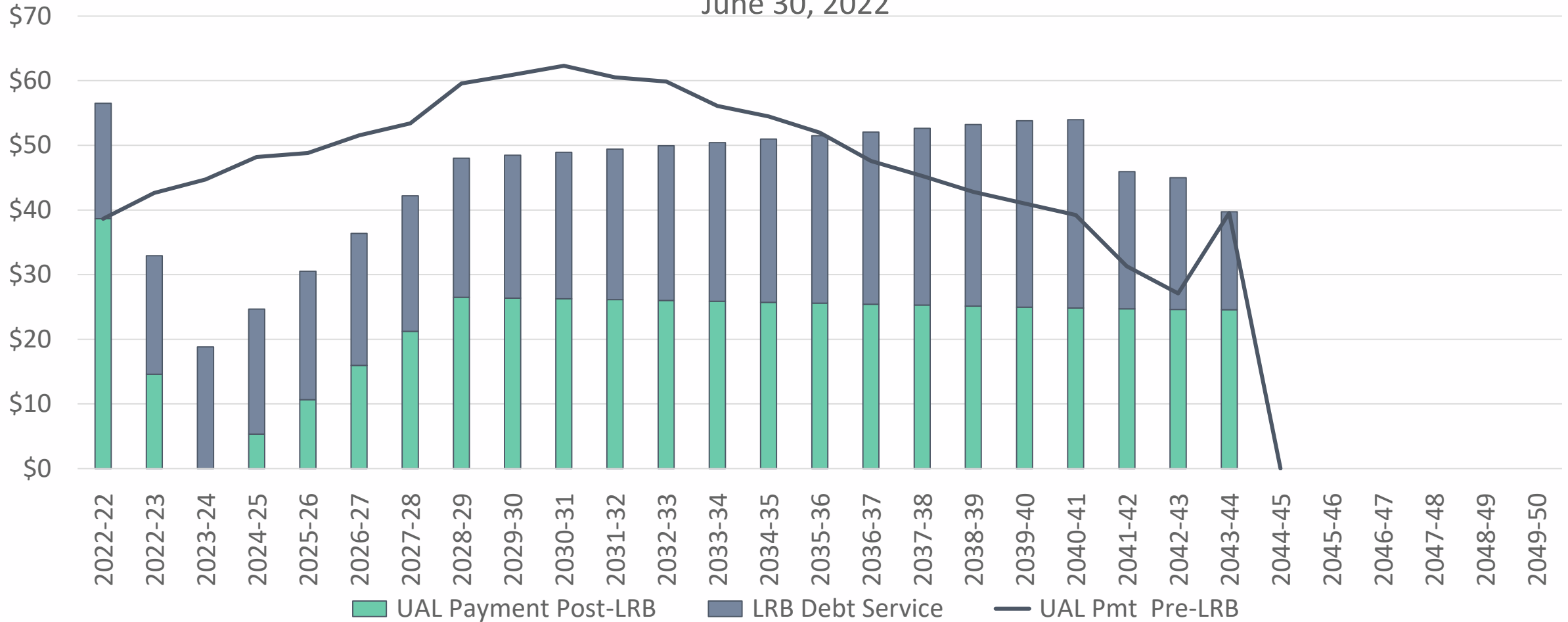


- Accrued Liability
- Market Value of Assets
- Unfunded Accrued Liability (UAL)
- Funded Status



Projected UAL Payment Schedule

June 30, 2022



Multi-Pronged Strategy to Manage Pension Obligation



Sales Tax Measure SST – Provides funding so that rising pension costs don't squeeze out critical public safety, community services and public infrastructure



Restructured Unfunded Pension Liability through Issuance of Bonds with a fixed interest cost of 3.44%



§115 Plan to established as a buffer against adverse experience and changes in actuarial assumptions



City Continues to provide high quality services to community

